



Minutes City Council Issue Review Session January 27, 2011

Minutes of the Tempe City Council Issue Review Session held on Thursday, January 27, 2011, 6:00 p.m., in the City Council Chambers, Tempe City Hall, 31 E. Fifth Street, Tempe, Arizona.

COUNCIL PRESENT:

Mayor Hugh Hallman
Councilmember Robin Arredondo-Savage
Councilmember Mark W. Mitchell
Councilmember Corey D. Woods

Vice Mayor Joel Navarro
Councilmember Shana Ellis
Councilmember Onnie Shekerjian

STAFF PRESENT:

Charlie Meyer, City Manager
Jeff Kulaga, Assistant City Manager
Andrew Ching, City Attorney
Various Department Heads or their representatives

Ken Jones, Finance and Technology Director
Jyme Sue McLaren, Deputy Public Works Dir. – Light Rail
Brigitta M. Kuiper, City Clerk
Greg Jordan, Interim Co-Deputy Public Wks Dir. – Transp.

GUESTS PRESENT:

Dr. Arthur Tate, Tempe Elementary Superintendent
Jim Lemon, President of the Governing Board
Karen Arredondo, Tempe Elementary School

Chris Bush, Tempe Elementary Assistant Superintendent
Steve Banta, Metro CEO

Mayor Hallman called the meeting to order at 6:12 p.m.

Call to the Audience

Melissa Farling voiced concern about the possible repurposing of McKemy School. She suggested that a Request for Proposals be issued for multiple sites.

Mayor Hallman stated that the Tempe City Council has no authority over the school district board. The purpose of the Tempe Elementary School District presentation is to give the public an understanding of what is happening with the school district.

Brian Martin expressed his appreciation to the Council for placing the Tempe Elementary School District budget presentation on this agenda. This has an impact on neighborhoods and the community. Hopefully there can be aggressive and creative budgetary solutions.

Tempe Elementary School District FY11/12 Budget Overview

Dr. Tate, Tempe Elementary School District Superintendent, stated that the purpose of this presentation is to provide a school district budget update. Council has been provided with a copy of the Tempe Elementary newsletter. Documents are also available on the school district's website at www.tempeschool.org; these documents are used to assist in making decisions.

The school district is experiencing a difficult financial period and has reduced its budget 11% over the past three years. The state financial outlook is bleak. The best case scenario is an additional \$2.1 million budget reduction, and the worst case scenario totals \$5 million in budget cuts. Budget reductions could total as much as 14% over a four year span. The governing board has identified the need for structural changes, while at the same time striving to preserve programs. Reductions must be sustainable.

Two committees have been formed: 1) Bell Times Committee, and 2) Boundary Committee. The committees are studying and prioritizing 44 budget reduction items, some of which are drastic choices, such as decreasing special educational service levels, eliminating the middle school concept, cutting benefits/salaries and furloughs. School consolidations and repurposing are also being considered.

Several forums have been and will be held. Attendees have expressed concerns about repurposing schools and how that will impact their neighborhoods. In March 2011, the governing board will be asked to approve the priorities so the final budget may be approved in May or June. Finalizing the budget will depend upon what the legislature does. The focus over the past four years has been on student achievement and not laying off any full time professional or certified staff. This has been an emotional process. Dr. Tate voiced his intent to continue partnering with the Council and keep them apprised of this situation.

Vice Mayor Navarro asked why the District has chosen to close McKemy School. Dr. Tate stated that the building is in poor condition compared to other schools; reinvestment dollars have been used in other facilities. Information regarding this closure is available on the school district's website. Vice Mayor Navarro noted that McKemy is a high performance school that is connected to an international baccalaureate program. Dr. Tate explained that several middle schools have special programming such as the international baccalaureate program; McKemy is not the highest performing middle school.

Councilmember Mitchell thanked Dr. Tate for his presentation and voiced concern about how neighborhoods will be impacted by closing schools. Schools play an important role economically and socially.

Councilmember Ellis stated that it would be helpful to announce when the forums are scheduled.

Councilmember Shekerjian expressed empathy for the financial hardships and changes occurring. At one point Arizona State University (ASU) was to be the Charter holder to McKemy School with collaboration between ASU and the Tempe Elementary School District. This arrangement would allow teachers to retain their jobs. The cost of staff would be removed from Tempe Elementary's budget and shifted to ASU. She asked if this arrangement could still occur. Dr. Tate stated that to his knowledge, ASU is not looking for a school at this time; it was part of the university public school initiative. This collaborative arrangement received resistance when previously presented. Councilmember Shekerjian stated that perhaps those individuals that were not in favor of this arrangement previously might prefer it to the alternative of closing the school.

Dr. Tate announced future forum dates of February 1, February 3 and February 9, 2011 at different school locations. Concerning the format of the forums, Dr. Tate stated that information is being conveyed to attendees, ideas shared among participants and feedback forms are available. Feedback forms are forwarded to the board. There is also a study session to discuss major themes and ideas.

Councilmember Arredondo-Savage offered her assistance and the involvement and resources of the Education Partnerships Council Committee. She thanked Dr. Tate for his presentation.

Vice Mayor Navarro thanked Dr. Tate for sharing this information. Public security aligns with transparency.

Mayor Hallman stated that he and his colleagues understand the frustration caused by this difficult problem. Over the past three years, the City cut over 17% of its budget. That was an extremely difficult and emotional process. The reduction in property values present additional financial hardships to school districts. In light of the ongoing economic hardship, he noted that there are opportunities for assistance.

Comprehensive Financial Plan

Charlie Meyer, City Manager, reported that the City Council held a budget workshop on December 9, 2010. At that time staff was in the process of finalizing a long range forecast, which has now been completed. Included in that forecast is a discussion on options to finance the operations of the streetcar. Staff will also be discussing concerns about Public Safety Personnel Retirement System (PSPRS) impacts, Highway User Revenue Fund (HURF) additional impacts, as well as challenges to the capital budget. Reduced property values/assessments have substantially drawn down the secondary property tax levy.

Ken Jones, Finance and Technology Director, reported that staff produces a semi-annual financial report and provides monthly updates to Council. Staff is seeking feedback on the information being presented. Presentation and discussion highlights included:

- Operating and Capital budget planning process – meeting timeline
- Objectives
 - Review issues raised at the December 9, 2010 budget workshop
 - Highlight major changes to projections since December 9, 2010
 - Discuss strategies for addressing changes
 - Analysis of the General Fund
 - Overview of the other funds
 - Elicit City Council input and answer questions
- Review of issues from the December 9, 2010 Budget workshop
 - Projected \$10 million impact on the General Fund when the temporary sales tax expires in 2014-15
 - Contingency planning for changes to the State revenue-sharing program
 - The impact of personnel costs/policies on fiscal sustainability
- December 9, 2010 projections
 - Projected revenues and expenditures
 - Fund balance as a percentage of revenues
- December 9, 2010 proposed adjustments
 - Projected revenues and expenditures
 - Fund balance as a percentage of revenues
- General Fund forecast updates
 - City sales taxes – improved projections by \$1.1 million (1.6%) for both 2010-11 and 2011-12
 - Operational revenue reductions
 - Building/Planning & Zoning - \$500,000
 - Cultural/Recreation - \$200,000
 - Fines, fees and forfeitures - \$400,000
 - Other revenues - \$400,000
- State Income Tax
 - Decreased annual projections by an average of \$827,000 beginning 2011-12
 - Public Safety Personnel Retirement System (PSPRS) contributions – additional cost of \$1 million in 2011-12, increasing to \$4.3 million in 2014-15

Sales tax assumptions are based on the State's Finance Advisory Committee data.

- Public Safety Personnel Retirement System (PSPRS) contribution rates – the legislature has been made aware of the budget funding/contribution rates for PSPRS and the impact to municipal budgets
- General Fund prior to adjustments
 - Projected revenues and expenditures
 - Fund balance as a percentage of revenues
- General Fund with adjustments – proposed adjustment
- Projected General Fund personnel costs – this will impact memorandum of understandings, the City Manager will be working with employee groups to identify changes to personnel policies that result in sustainability. Councilmembers agreed with this approach.

- Forecast changes in other funds
 - Transportation Fund – recent decrease in projected HURF funding from the State
 - Transit Fund – to be covered during the streetcar presentation

Mayor Hallman asked if the potential cuts to HURF had been anticipated in the budget forecast. Mr. Jones replied that the legislative budget cuts appear to be unreasonable; the HURF fund is barely sustainable. Mayor Hallman stated that it would be prudent to take the proposed cut seriously and plan accordingly.

Councilmember Shekerjian stated that the legislature did not address their fiscal issues in a timely manner. She voiced her appreciation of having candid discussions of this nature concerning the City's fiscal forecast. She thanked staff for their work on this issue.

Councilmember Arredondo-Savage stated that it may be necessary to reprioritize the budget items in the yellow category, previously slated for elimination.

Mayor Hallman noted the following:

- Capital Fund – reductions in state income taxes and state sales taxes are occurring because the amount of money the state has to distribute lags two years behind collections
- Debt Service Fund – reductions in property taxes because this revenue lags behind as well
- Tempe budgeted conservatively on operating and capital budgets; the debt service fund policy resulted in excess reserves; operating budget reserves were doubled – however that reserve has since been spent down. Perhaps additional cuts would have assisted in maintaining the fund balance, given the continued economic challenges.

Mayor Hallman asked how Tempe compares to other municipalities and jurisdictions that rely on property taxes such as school districts. Mr. Jones stated that staff does not have comparison data about school districts. However, some municipalities are moving money from the primary to the secondary tax, and not taking their maximum 2% increase next year to pay their debt service. Tempe has budgeted conservatively in the past. Mayor Hallman added that given the extended economic downturn, perhaps Tempe's budgeting was not as drastic as it should have been.

Charlie Meyer stated that the secondary property tax is what is used to pay for capital programs – maintaining streets, parks, etc. Debt is structured based on property valuation projections. Over the past five years, property valuations have decreased which have reduced secondary tax collections from \$25 million to 12.5 million. Because of the decline in property valuations, monies collected now are only used to pay down debt; there is not enough revenue to address infrastructure needs. Mayor Hallman stated that there has been much discussion over the years regarding a fixed tax levy versus a fixed property tax rate. Had previous policy been different, the capital program would have been preserved. Tempe should not have taken the upturn in valuations in exchange for maintaining the same tax rate. The tax levy should have been structured around the needs of the capital improvement program; rates should float based on property valuation.

Mayor Hallman stated that the City previously worked with employee groups to reduce pension contribution rates as the funds were performing well. Continued discussions are needed about benefits, including pension contribution rates, to determine how costs should be shared and the impact on the budget.

Street Car Financing Update

Jyme Sue McLaren, Deputy Public Works Director – Light Rail, stated that the purpose of this presentation is to update the Council on economic and funding opportunities for the streetcar project. Co-presenters introduced were Greg Jordan, Interim Co-Deputy Public Works Director – Transportation, and Steve Banta, Metro CEO.

Ms. McLaren briefed the Council on previous streetcar actions taken. The most recent Council direction was for staff to return with a definitive financial plan. Presentation and discussion highlights included:

- Streetcar alignment – 2.6 miles; one-way loop in downtown; Phase II to connect to Rural Road
- Project milestones outlined from 2007 through 2016

- Federal Transit Administration (FTA) Small Starts overview – phases of project development; current status up to operations
- FTA Small Starts Evaluation Criteria – 1) local financial commitment; 2) project justification (*cost effectiveness, land use and other economic development factors*)

Ms. McLaren stated that it is critical to institute policies that demonstrate that Tempe has the appropriate land use and economic development potential for this streetcar project. Mayor Hallman noted that the federal process is lengthy and places younger states at a disadvantage from an economic impact standpoint.

Ken Jones, Finance and Technology Director, stated that staff has identified the net streetcar operating costs to the City of Tempe, economic benefits and activity derived from typical streetcar projects, cash flow, and opportunities to supplement current cash flow. He detailed the following:

Net operating costs

- Gross operating cost of \$3.1 million in 2017
- Offsets to gross cost totaling \$968,000
 - Fare revenue
 - Adjustments to right-size service (system realignment)
 - Additional federal preventative maintenance funding
- Net annual cost for Tempe to operate the streetcar - \$2.1 million

Mayor Hallman referenced Tucson's streetcar model, which is the same as Tempe's, except that their streetcar length is 4 miles in length and will cost an estimated \$3.1 million to operate. Tempe's streetcar is 1.4 miles shorter, but costs the same to operate as Tucson's. Ms. McLaren stated that Tucson's estimated costs to operate a streetcar have since been revised and their costs have increased. Mayor Hallman requested that staff provide Councilmembers with the revised Tucson estimate.

Economic benefits derived from streetcar projects

- Increased property values
- New development/redevelopment
- Increased retail activity
- Increased rental/lease activity and rates (total full cash value property data per Maricopa County Assessor)

Mayor Hallman stated that the total transit network needs to work holistically.

METRO experience – development along 20-mile Route 2004 to present

- \$6.9 billion total investment along alignment (planned, under construction or completed)
 - \$5.4 billion in private investment
 - \$1.5 billion public investment
- \$16,500+ residential units (Tapestry on Central, The Vue, Grigio Metro)
- 129 million square feet of commercial
- 3,400+ hotel rooms

Portland streetcar experience: developer confidence

- Timing: developer willingness to invest earlier
- Scale: increased density
- Pricing: developer willingness to bring higher-end products to market (customer willingness to pay higher rents and sales prices)

Steve Banta stated that the Portland streetcar brought with it residential neighborhood improvements, property values

increased, attracted retail and reinvestment occurred. Old neighborhoods got reinvigorated.

Portland experience: streetcar investment increased property value

- Streetcars promote interaction between riders and businesses
- Property owner participation in Portland streetcar investment
 - \$15 million Eastside (10%)
 - \$19.4 million Westside (19%)

Mayor Hallman emphasized that existing services cannot be cut to fund the streetcar. Mr. Jones stated that the cuts proposed to the Transit Fund keep the fund healthy.

Cash flow available for operations

- Transit Fund – projected status in 2016-17
 - Projected \$1.2 million surplus in 2016-17 (\$1.5 million by 2018-19)
 - Projected fund balance of \$11 million (plus \$2.6 million scheduled reimbursement)
 - Planned budget-balancing adjustments of \$4.7 and \$4.9 million are assumed

Potential revenue sources

• Advertising	\$75,000
• Restructured parking program	\$556,000
• Increase Downtown Tempe Community Inc., (DTC) assessment by 10%	\$59,000
• Install solar panels	\$15,000
• Implement 50% fee for youth transit passes	\$216,000
• Potential 1% increase in sales	\$95,000
TOTAL POTENTIAL RECURRING REVENUE	\$1,016,000

Mr. Jones stated that the potential revenue sources identified could be substituted with other revenue generating sources. For instance, there are city parking lots that could be leased, parking meters and enforcement could be other options. He requested feedback from Councilmembers.

Councilmember Woods voiced his appreciation for the conservative estimate of a 1% increase in sales. In terms of the 50% increase for a youth transit pass, it is understandable that cost recovery be taken into consideration.

Councilmember Ellis expressed concern about the proposed increase in the DTC assessment. In addition, the youth transit pass fee may discourage youth from using this transit service. Perhaps an application fee of \$20 could be charged to obtain a transit pass, but she would not be in support of increasing youth transit fees by 50%. Long term impacts are difficult to measure.

Councilmember Mitchell asked if monies collected from the potential revenue sources would be deposited into the General Fund. Mr. Jones stated that it would vary. Transit fund items, except parking meter revenue would need to be pre-designated. Councilmember Mitchell asked if the DTC is aware of the assessment and its potential impact on downtown parking meters. Mr. Jones replied that he has communicated this information to Nancy Hormann, DTC President. Ms. Hormann indicated that the DTC board would not be in favor of this assessment.

With regard to the DTC assessment, Councilmember Shekerjian asked if consideration had been given to grandfathering in existing businesses, creating an improvement district and/or only assessing new businesses that open as a result of the streetcar project.

Mayor Hallman stated that the cost estimates are conservative. Apache Boulevard is an example of properties increasing in valuation as a result of a transit project. The difference between a bus and a modern streetcar, a bus and light rail, is that you can not move the rails. Developers understand that concept. It makes sense for landowners to participate in funding operations for a streetcar.

Nancy Hormann stated that she believes that property owners would be willing to assist in operating costs. It would be appropriate to set the basis at what current property values are and apply tax increases only on property valuation increases. DTC is in support of the streetcar project.

Councilmember Ellis asked if the offset of the fare revenue is based on current rates. Mr. Jones stated yes, and another fare increase is scheduled for 2016. The City does not have oversight authority of fare revenue; that is administered by another entity and is based on a system wide structure.

Charlie Meyer stated that this discussion is referencing properties outside of the DTC assessment district. There could be an opportunity to create a Community Facilities District, but the options being presented this evening are existing options.

Mayor Hallman stated that now is the time to approach private property owners to get their commitment to assist with funding streetcar operations. This would also support a sustainable transportation model.

Councilmember Mitchell noted the projected increase in sales tax revenues and asked what would happen if that projection did not occur. Mayor Hallman stated that the Transit Fund must be balanced, regardless of the streetcar project. The Performing Arts Center (PAC) is an example of making financial commitments based on bad assumptions. The dedicated sales tax for the facility is set to expire 2020. When the PAC temporary tax expires, the problem is the same as what will happen in the General Fund when the temporary sales tax expires. To operate the PAC and solve its deficit problem, recurring revenue of approximately 1/20 of a cent will be required. If that 1/20 of a cent were included in a transit tax, it could address that problem.

Mayor Hallman requested that staff provide him with information regarding the amount collected from the 1/10 cent transit sales tax that should have been earmarked for the Orbit operation costs from 1996 to 2007. Sales taxes to operate the Orbit should have been reserved for that purpose; instead, it was allocated to the light rail system. Perhaps voters could be asked to extend the tax after the 2020 expiration date with ½ of the tax increase be dedicated to the PAC and the other ½ be dedicated to the Transit Fund. Another possible is creating a Government Property Lease Excise Tax (GPLET) area for properties along the route.

Councilmember Mitchell voiced concern about the availability of federal transportation funds and potential funding reductions. Mayor Hallman stated that the Transit Fund deficit is not related to federal funding. If projections are accurate, the Transit Fund should have a surplus in 2016. Steve Banta stated that every six years the federal authorization bill for federal funding lags up to a couple years with continuing resolutions. Congress is currently debating transportation funds and how they impact jobs, economic development, etc.

Councilmember Ellis stated that this project can not occur without federal funding assistance for the capital funding portion. Operating funds, what the City is responsible for, is what is being discussed. Even though transportation federal funding is anticipated to be cut, Tempe needs to remain diligent so that it is positioned to receive federal funding. Nationwide, there are approximately 60 streetcar projects that are in various stages of development.

Councilmember Woods echoed Councilmember Ellis' comments and stated that Tempe is a leader. Operating estimates are conservative for this long term investment and unique opportunity. The development community has expressed an interest in this project; it will attract private sector investment. An example of how transit invigorates an area is what light rail did for Apache Boulevard. This is a long term investment. He voiced support of this project.

Mayor Hallman stated that the streetcar loop route will add diversity and reduce the economic volatility in downtown.

Councilmember Shekerjian stated that she and her family chose to live in Tempe because of its forward thinking and progressive leadership. Ensuring how streetcar operations will be paid for is important.

Mayor Hallman noted that the Proposition 401 revenue that Tempe receives, as part of the construction, is regional money. Eventually Tempe may look at options to proceed north and west of Rio Salado. This particular route has been preapproved in a regional plan because Tempe had completed its segment planning phase, which took several years. The capital funding associated with the regional project is already in place and the process has begun. If the federal government cuts funding to build the streetcar, then there will be no need to fund operations.

Mayor Hallman stated that before a final financing plan is been approved, private property owners will need to make a commitment to this project. That process should begin immediately.

Councilmembers agreed to move forward with the Federal Transit Authority (FTA) application and continue to work on financing plan.

Formal Council Agenda Items

None.

Future Agenda Items

None.

Mayor's Announcements/Manager's Announcements

None.

The meeting adjourned at 8:20 p.m.

Brigitta M. Kuiper, City Clerk